EDISON

Attica Bank

Company update

Refocus and grow

Banks

After a substantial balance sheet clean-up, Attica Bank is now beginning to implement its plan to refocus the business and expand its loan book. The time taken to refine and approve the strategy has deferred a return to profitability. Q2 and Q319 were significantly weaker than expected and we now expect profits only in 2021. The plan is to double the loan book in three years, with more cost cutting, a rebranding and a targeted approach to small business lending and the professional personal market. Through additional securitisations, management is hoping to reduce the legacy NPL book to zero by 2021. Successful delivery would allow ROE to approach 7.4% (5.1–5.7% with rights issue dilution) in 2022 and offer upside to the current 2020e P/BV of 0.22x.

Year end	PBT (€m)	Underlying PBT* (€m)	EPS* (€)	ROE (%)	P/E (x)	Price/BV (x)
12/18	4.75	(21.71)	(0.01)	N/A	N/A	0.22
12/19e	(28.99)	(29.75)	0.00	0.2%	N/A	0.22
12/20e	(8.02)	(8.82)	(0.02)	N/A	N/A	0.22
12/21e	13.19	12.39	0.03	3.0%	7.2	0.21
12/22e	36.25	35.45	0.08	7.4%	2.8	0.20

Note: *PBT and EPS are normalised, excluding amortisation, exceptional items and share-based payments. Figures exclude capital hike likely required for growth.

Growth segments focus

Attica is no longer aiming to serve the broad retail market or larger corporates; its new focus is on smaller companies in the environment, energy and infrastructure sectors. After years of underinvestment following the economic crisis, investment in these segments is expected to increase significantly in coming years. Attica's aim is not to lend to the big players in these projects, but to lend to the smaller subcontractors.

Revenue growth needed

The delay in rebuilding the business and growing its assets means we expect Attica Bank to report a pre-tax loss of €29m in 2019. We assume an NII CAGR of 37% for 2019–22, driven by more loans (net loan CAGR 22%), a better loan mix (SME vs corporate and mortgages) and lower cost of funding. Fee growth will be driven by business volume, higher prices and a bancassurance strategy. We expect cost growth to be muted despite the expected purchase of a new digital platform. With the impairments rate expected to normalise at a lower post-crisis level, we estimate that bank ROE will reach 3% by 2021 and 7.4% by 2022. However, the bank will have to raise some equity to fund this growth; we estimate 300–500bp of capital (€117–194m). With a 400bp capital hike, we estimate a ROE of 5.4% in 2022.

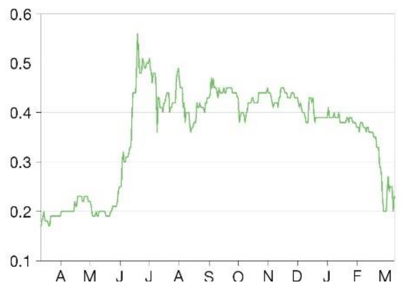
Valuation: Risk/reward changed

After the recent coronavirus-related market sell-off, Attica trades at a 2020 P/BV of 0.22x, in line with its Greek peers. On our estimates, this would rise to 0.41x with a 400bp rights issue. This implies there is upside if the bank raises equity and matches our forecasts (ROE 5.4% in 2022e). While there are risks inherent in the implementation and other risks to our estimates, the bank's own targets are more ambitious and there is scope for higher returns beyond our forecast period.

11 March 2020

Price	**€0.23**
Market cap	**€106m**
	€1.14/£
Common equity tier 1 ratio	13.5%
Shares in issue	461.3m
Free float	18.5%
Code	TATT
Primary exchange	Athens
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(37.5)	(40.8)	30.8
Rel (local)	(10.2)	(18.8)	45.0
52-week high/low		€0.56	€0.17

Business description

Attica Bank is the fifth-largest bank in Greece, with assets of €3.45bn and 55 branches centred around Athens. It has a 2% market share of business banking and around 2% market share of most retail banking products.

Next events

Q419 results	March 2020

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Investment summary

Transformation and ramp-up

We are at the point in Attica Bank's transformation where increasing revenue is critical, and this can only be done by growing the balance sheet. The SME lending focus has been refined to the environment, energy and infrastructure segments in addition to targeting the professional personal sector. The bank aims to double net loans in three years (we have from 1.6bn in 2018 to 2.3bn in 2022 in our model) and double the assets in five years. After a decade of under-investment due to austerity and the economic crisis, infrastructure investments are poised to increase. Funding will come from government and EU funds but will also include local lending. The biggest portion is expected to be in energy (PwC forecasts 43%) and green energy will be important as the government wants to decrease its imported fossil fuels reliance. The bank's aim is not to lend to the big players in these projects, but to lend to the smaller subcontracted companies.

Other key features of the strategic plan include: (1) rebranding and a new image, (2) a new digital platform, (3) further cost cutting including centralisation of back offices and headquarter relocation, and (4) some strengthening of the management team. All of this is planned to be executed by 2020.

Attica is likely to participate in the Hercules scheme, the now ECB-approved Greek government securitisation programme. However, there is some reticence regarding the cost of the Greek government insurance. Management is aiming for zero new net non-performing loans (NPLs) in its legacy book by 2021. It is outsourcing a significant portion of the NPL management and will look into possibly doing another securitisation in the second half of 2020. Our figures do not assume a securitisation; another successful one would be beneficial in reducing balance sheet concerns.

Changes in forecasts

Time needed to finalise and approve the growth strategy has resulted in significant cuts in our forecasts due to lower business volumes. The lower interest rate environment in Greece also prompted lower net interest margin forecasts. We now forecast that Attica will still be loss-making in 2020 (underlying EBT loss of €12.1m, previously €21.6m profit). We cut our 2021 forecast EBT from €33.1m to €9.1m (a return on equity (ROE) of 3.0%). We have raised our fee forecast due to the ambitious bancassurance strategy, but this is overwhelmed by the lower interest income, higher impairments and operating expenses. We also introduce figures for 2022 (ROE of 7.4%). Exhibit 8 details the changes in our forecasts.

Valuation

Attica now trades at a 2020 P/BV of 0.22x, in line with its Greek peers, which are all trading at depressed ratings due to the coronavirus crises. On our estimates, if the bank raises 400bp equity in 2020, the PBV would rise to 0.41x and it could achieve an ROE of 5.4% in 2022. This implies there is upside if the bank raises equity and matches our forecasts. The bank is at a turning point between loss making and profitability, meaning that estimates are highly sensitive to the pace at which improvements will flow through, with implications for its valuation. Our forecasts are based on management's strategic plan.

Sensitivities

There is clear execution risk as Attica tries to deliver on its game plan in terms of growing revenue, hiring staff, cutting costs, implementing a new digital platform and so on. Lending rates in Greece are falling, so there is risk of further unfavourable interest margin compression. We also note that the fast pace of the loan book expansion carries credit risk that could well bite back in later years.

The need for capital is clear and a successful issue is important. Finally, we note that Attica Bank, like most banks, is rather exposed to the macro cycle and unfavourable shocks.

Transformation strategy

The focus is now on growing revenue after several years of balance sheet clean-up and cost cutting. The traditional focus of the bank has been the SME segment and now it aims to focus selectively in this this segment while eschewing the mass market retail space, where its smaller size and more limited customer reach made it hard to compete against the bigger Greek banks.

Attica believes that with quality service and niche focus it can pick up business. As a small bank (1.8% market share in business lending), there is enough client attrition from the bigger banks to provide scope for Attica's expansion. The niche approach means that the bank, for example, will not usually aim to make loans to the big corporates in investment projects but to lend to the smaller partners, the smaller subcontractors in the ecosystem.

There have been some management changes, including new chairman Costas Mitropolous and Antonis Vartholomaios being brought in as co-deputy CEO. Besides being chief executive of one of Greece's most successful management consulting companies, Kantor, and being a senior executive at PwC, Mr Mitropoulos also has banking experience with Eurobank and was the first CEO of Greek privatisation agency, PQH. Mr Vartholomaios was a board member of the Greek privatisation company (Hellenic Republic Asset Development), as served as CEO/chairman at Athens Water Supply and Sewerage Company and his experience also includes management positions in Greek venture capital company EuroHoldings, Egnatia Bank and Pegasus Securities.

The key pillars of the strategy are as follows:

1. **Grow the business:** the bank has now disclosed that it aims to its double balance sheet in five years, and the net loan book in three years from end of 2019.
2. **Focus on growth sectors:** the target business areas within the SME segment are environment, energy and infrastructure; the bank has identified these as areas of significant growth in coming years in Greece reflecting investment needs and government policy after a decade in which Greece invested 1% of GDP pa less than European peers due to economic crises and austerity.
3. **Dual modern and traditional client relationships:** the bank intends to buy a digital platform (cheaper than building in-house) and combine this with old-fashioned client relationship banking in targeting the SME market and the personal banking for professionals segment.
4. **Alliances for efficiency and quality:** these include for the bancassurance (with Interamerican Insurance company, part of Achmea, a Dutch insurance group) as well as financial advisors UBS and Euroxx.
5. **Zero legacy NPL:** management is aiming to reduce the legacy NPL book (46% of gross loans) to zero by 2021. The plan involves additional securitisations and participation in the Hercules plan.

Of the ongoing actions needed to support and underpin this strategy the following need to be highlighted:

1. Personnel: Reskilling, reallocating staff, new hires. The bank is taking advantage of favourable labour market conditions to make some strategic hires, strengthening the management team to help drive this growth. Some are obvious such as moving more people into client facing roles and reducing staff in loan restructuring.
2. Digitalisation: The bank also plans the digitalisation of its processes as much as possible. This is not so much a differentiating strategy but reflects the need to further increase efficiency, cut

costs and improve customer relationships. The platform will be bought rather than developed in-house and the costs can be offset by some of the cost-cutting elsewhere.

3. Raising capital to fund growth: management recognises that the bank will need additional capital to be able to expand its balance sheet on the scale envisaged in the business plan. We detail the capital needs in the Valuation section below. There are various potential approaches to raising the capital, including equity and hybrid capital structured to be recognised as tier 1 by the regulator. The bank believes that loan securitisations might reduce the amount of capital that it might need to raise.
4. Reduce non-performing exposure (NPE): the bank also disclosed that it aims to have zero net legacy NPLs by 2021. The bank hopes to have loan loss charges (LLC) closer to peers and to see this trending down towards 100bp. Attica Bank will also seek to optimise its existing exposure in securitisation. Attica is considering its participation in the Hercules scheme, but is first looking to increase visibility on the NPLs. The Hercules scheme is a Greek government-supported asset protection scheme that will involve a special purpose vehicle (SPV) securitising bank NPLs with a government guarantee and a junior tranche to be sold to investors. This scheme was approved by the European Central Bank (ECB) in October 2019. Attica is also looking at a possible further securitisation in the second half of the year, if market conditions allow, in deals likely to be similar to the two already carried out. It expects to have about half of its legacy NPL management outsourced, which would free up management time and focus and may also release capital.
5. Sale of non-core banking assets, including real estate assets: Attica Bank intends to sell down all of its property, centralise its back office and move into a new headquarters to improve cost efficiency. The bank has indicated that some gains on the sale of real estate are likely, but no guidance has been given on how much this might amount to.
6. Bancassurance is expected to help drive fee growth following the announced alliance with Interamerican insurance company. Here the focus will be on the professional personal clients (such as engineers, lawyers, etc).
7. Mining the existing client base: now that the bank is back in a growth phase, it intends to reconnect with many of its clients that are either underpenetrated or for whom it ceased to be the major bank during its troubles in recent years. Attica has 600,000 personal accounts, but only 120,000 active; it has 3,500 SME clients with deposits, but only 1,000 have loans.

Along with skilling up the workforce, Attica's cost-cutting efforts will continue. Staff reduction will be done through natural attrition. Attica is targeting another 15% decrease in administrative expenses in 2020, with staff costs stable (new hires offsetting attrition). As part of the business plan, the bank expects to redesign and relocate some of its branches.

Q2 and Q319 results show delay pain

Because the bank has been focused in recent years on shrinking its balance sheet, cutting costs and cleaning the balance sheet, it has been difficult to start to redirect attention and effort towards growing the balance sheet again. As a result, growth in recent quarters has not matched earlier expectations. This has resulted in both net interest income (NII) and fees falling short due to lower business volumes. We note that single owner business and SME lending rates fell in 2019 (Exhibit 7) by about 20–30bp and this had an additional adverse factor. Following the clarification, approval and roll-out of the new strategy, the bank now appears well placed to deliver on the necessary planned loan growth and business rebuilding.

Delivery of this growth will depend of the successful implementation of the actions highlighted above.

Underlying revenue in Q319 was down 31% y-o-y due to net interest income being 46% lower than 12 months before. The net interest margin as percentage of financial assets shrank from 2.7% in Q318 to just 1.5% in Q319.

The bank reported underlying EBT losses of €9.8m and €8.2m for Q219 and Q319, respectively. The bank is operating quite below its structural capacity and so the drop in revenue as it repositions results in significant losses.

Reported revenues are affected by gains on securities, which are included in other income. The underlying revenue figures exclude some one-offs such as the significant gains on securitisations (€47m) booked in Q418 from the last loan book securitisations (Metexelixis).

Non-performing exposure (NPE) as a percent of gross loans now stands at 46%. The coverage of the NPE by provisions and collateral now stands at 120%. The annualised average impairment charge fell back to below 1% in Q319.

The statutory CET1 ratio was 11.9 in Q319 and we estimate that the fully loaded CET1 was 8.2%.

Exhibit 1: Attica Bank – quarterly progress

€000s	Q318	Q418	Q119	Q219	Q319	y-o-y %	q-o-q %
Net interest income	17,643	13,221	12,801	10,601	9,466	(46%)	(11%)
Net fees and commissions	1,005	2,567	1,362	555	1,367	36%	146%
Other operating income	851	49,609	9,212	5,710	3,976	367%	(30%
Total revenue	19,499	65,397	23,375	16,866	13,442	(31%)	(20%)
Total underlying revenue	**19,499**	**18,397**	**23,375**	**16,866**	**13,442**	**(31%)**	**(20%)**
Operating expense	(16,352	(19,350)	(16,471)	(16,863)	(17,743)	9%	5%
Pre-provision profit	**3,147**	**46,047**	**6,904**	**3**	**(4,301)**	**(237%)**	**n.m.**
Impairment charge for loan losses	(3,512)	(2,907)	(5,000)	(9,136)	(3,566)	2%	(61%
Reported Pre tax	(3,109)	42,652	1,905	(9,760)	(8,022)	158%	(18%
Underlying pre tax	**(2,865)**	**(4,173)**	**1,905**	**(9,983)**	**(8,267)**	**189%**	**(17%)**
Net loans	2,037,604	2,015,100	1,592,144	1,566,670	1,550,419	(24%)	(1%)
Ratios							
NIM % financial assets	2.7%	2.0%	2.0%	1.7%	1.5%		
LLC % net loans	0.7%	0.6%	1.5%	2.3%	0.9%		
Non-performing % gross loans	52.4%	41.0%	42.0%	44.0%	46.3%		
Impaired % net tangible assets	180%	114%	117%	123%	130%		
NPE % LLA coverage	45%	43%	33%	34%	33%		
NPE % coverage with collateral	123%	125%	123%	126%	120%		
CET 1 Statutory	12.8%	13.4%	12.5%	12.1%	11.9%		
CET1 fully loaded (est.)	10.1%	8.9%	8.7%	8.4%	8.2%		

Source: Attica Bank, Edison Investment Research.

Outlook

Greek economic recovery continuing

The Greek economy is expected to continue on its recovery trajectory for the medium term. The sovereign risk has been reduced (the government 10-year bond yield is currently 1.45%) and economic sentiment has reached a 12-year high. Unemployment, which reached almost 30% in 2013, is expected to be 18.5% by the end of 2019 (according to IMF forecasts) and consumer confidence is the highest since 2000. The IMF forecasts GDP growth to remain above an annualised 2%, with both the current and fiscal deficits well in check.

Exhibit 2: Economic forecasts for Greece

	2017	2018	2019e	2020e
Real GDP (%)	1.5	1.9	2.0	2.2
CPI (%)	1.1	0.8	1.1	1.4
Unemployment (%)	21.5	19.3	18.5	17.5
Current account % GDP	-2.4	-3.4	-2.7	-2.6
Fiscal balance % GDP	1.0	0.4	-0.2	0.1

Source: IMF

The energy, green and infrastructure opportunity

The economic crisis and austerity measures have led to a decade of infrastructure under-investment in Greece. Greece is spending about 0.7% of GDP annually (equal to €1.4bn) in infrastructure, compared to a 1.4% average in the EU and 3.0% in Greece before the crisis. Going forward, the government has recognised the need to increase spending in this area. According to consultancy.eu there has been a €67bn shortfall in the last decade in Greece. For a bank with a net loan book of only £1.8bn after the balance sheet shrinkage, the growth opportunities are truly significant for Attica Bank.

Consulting company PwC believes that the number of large infrastructure projects will increase from 13 in 2019 to 23 in 2020 and about 52–55 for the 2023–26 period. It sees a pipeline of 88 projects worth €25bn in coming years.

PwC estimates that about 43% of these investments will be energy related. Electricity interconnectors and electricity generation will account for about 80% of this and the remainder will include gas interconnectors and liquid natural gas (LNG terminals).

Much of this investment will be in green energy, one of Attica's focus targets. PwC estimates that 33% of the energy will be in fuel/ignite, 43% in wind, 12.5% in hydro, 5% in solar and 7% in hybrid (hydro and wind).

According to the International Energy Agency (IEA), about 95% of Greece's energy needs came from fossil fuels in 2017. Nearly two-thirds of this needed to be imported as Greek's natural energy resources are limited. The government wants to see this decline. It also wants to move to alternatives to fossil fuels to cut down on its carbon footprint. It has approved a scheme (the National Energy and Climate Plan) in Q419 to cut the carbon footprint by 55% by 2030 when compared to 2005. The plan calls for 32% (currently 18% estimated) of renewable energy by 2030 (this matches the EU-wide target for 2030). The National Energy and Climate Plan estimates that the investment amount needed for this is about €44bn over a decade.

Non-energy infrastructure programmes will include rail, tourist infrastructure, waste management and recycling projects, where Greece is still lagging far behind EU goals.

These eye-catching figures underpin Attica's choice of sector focus. Besides government support, non-government funding will come from the European Investment Bank (EIB), with some from the EU funds, but according to the National Energy and Climate Plan there will also be an emphasis on investment funding at competitive and market terms. Attica's strategy will not be to take the lead in lending to the major players in the projects, but lending to the smaller sub-contractors where they have relationships and experience.

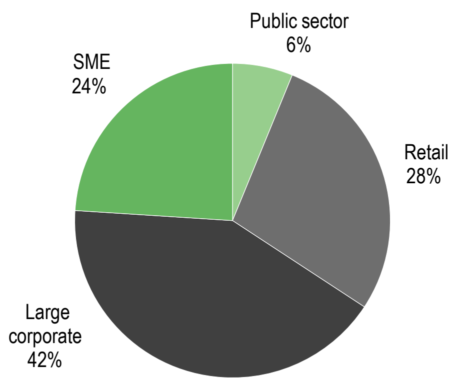
Managing NPLs a challenge for banks

Greek economic growth has been a very helpful tailwind as the Greek banks have been steadily repairing their balance sheets, shoring up their capital bases and adjusting their operating structures. Of the various challenges facing the sector, managing the large amount of NPLs (€835m gross) on their balance sheets is probably the greatest (stage 3 loans are 46% of gross loans, 38% on a net basis). NPL resolution is therefore an important factor and while steps have been taken to better this in Greece there is still room for improvement. There are still issues with some judges, while out of court resolution success is low (only 3% so far according to government figures). It is not clear if regulation will sufficiently change to significantly improve NPL resolution in coming years. The need to reduce the amount of legacy NPLs is also important. The ECB wants this to drop down to 6% of gross loans, while most banks have non-performing exposures of 30–40% (Exhibit 6). Further massive sector securitisations will be necessary, and the government-sponsored Hercules Asset Protection Scheme plans to reduce these exposures by up to €30bn. This was approved by the EU in October 2019.

Central bank data shows that new business lending activity remains subdued but is improving. However, the stock of lending, both gross (-8% y-o-y, September 2019) and net of provisions (-2% y-o-y), continues to drop, affected by write-offs, securitisations and provisioning. Attica's securitisation affected numbers are down 30% and 24% y-o-y for gross and net loans, respectively.

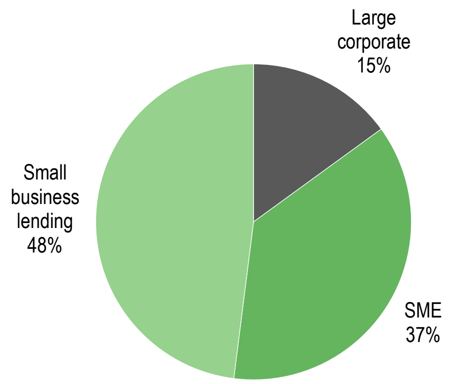
Attica's new focus on selected smaller business clients is already reflected in the disbursed loans in the first six months of this year. SME and small business lending (SBL) accounted for 83% of new disbursements if we exclude a single loan to a large corporate entity. SME loans accounted for just under a quarter of the loan book at the end of 2018, as shown in Exhibit 3.

Exhibit 3: Attica Bank loan book % breakdown (2018)



Source: Attica Bank, Edison Investment Research

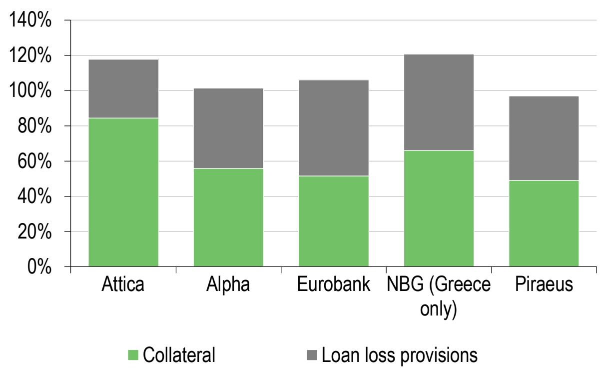
Exhibit 4: Attica Bank new disbursed loans during H119*



Source: Attica Bank, Edison Investment Research. Note: *Excluding a single large loan to a large corporate entity.

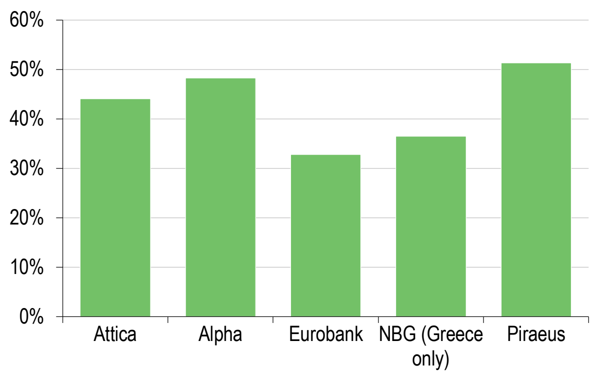
Attica's total coverage ratio (provisions plus collateral) of its NPE was 118% as of H119. The big Greek banks' coverage ratios were ranging from 100% to 120% at the end of June. We note that Attica continues to have the highest proportion of collateral in its coverage; cash provisions only account for 33% of the NPE as of H119. NPE was reported as 44% of gross loans and this has changed little since the Metexelixis securitisation was completed in Q418 (42%).

Exhibit 5: Greek banks – impairments + collateral % non-performing exposure (H119)



Source: Various banks' data, Edison Investment Research

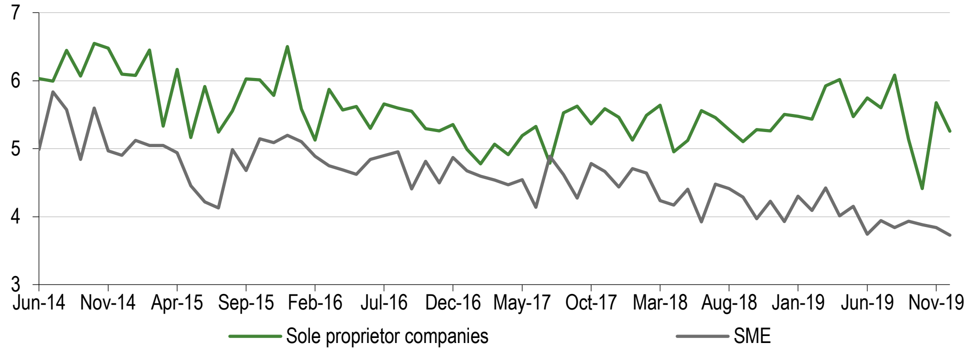
Exhibit 6: Greek banks – non-performing exposure % of gross loans (H119)



Source: Various banks' data, Edison Investment Research

Lending rates continue to come down in Greece, but at a gradual pace. Central bank data shows rates on new loans to sole business proprietors at 5.21% in December 2019, compared to 5.5% a year ago, while the SME average rate on new lending was 3.73% in December 2019 compared to 3.93% in December 2018.

Exhibit 7: Average rates on new loans to sole business proprietors and SMEs (%)



Source: Bank of Greece

Forecasts cut

We now forecast an underlying loss before tax for Attica of €8.8m (previously €21.6m profit) in 2020. We cut our 2021 forecast PBT from €33.1m to €12.4m (an ROE of 3.0%). We have raised our fee forecast to reflect the benefits from the bancassurance strategy, but this is more than offset by the lower interest income, higher impairments and operating expenses. We also introduce figures for 2022. If Attica Bank can deliver on the growth in its balance sheet, we believe its profitability should start to normalise by 2022, with an ROE of 7.4% (but paying minimal tax due to tax credits). Exhibit 8 below details the changes in our forecasts.

Exhibit 8: Forecast changes

€000s	FY18	FY19e			FY20e			FY21e		
	Actual	Old	New	change %	Old	New	change %	Old	New	change %
Income										
NII	69,290	78,350	44,239	-44%	88,712	67,613	-24%	99,052	87,348	-12%
NIM (% average financial assets)	2.6%	3.0%	1.7%		3.3%	2.3%		3.5%	2.7%	
Fees	6,956	10,100	5,750	-43%	11,312	15,325	35%	12,103	21,455	77%
Core revenue*	76,246	88,450	49,989	-43%	100,024	82,939	-17%	111,156	108,804	-2%
Reported revenue	80,988	92,650	60,922	-34%	104,224	87,739	-16%	115,356	113,604	-2%
Costs**	(71,978)	(69,942)	(74,870)	7%	(68,714)	(72,319)	5%	(67,458)	(73,264)	9%
Impairment charges	(27,527)	(16,174)	(22,350)	38%	(13,059)	(22,743)	74%	(13,973)	(26,454)	89%
Underlying profit before tax* **	**(21,709)**	**5,735**	**(29,751)**	**N/M**	**21,651**	**(8,824)**	**N/M**	**33,125**	**12,385**	**-63%**
Reported earnings	(2,357)	(2,030)	987		14,483	(7,807)		22,630	14,747	-35%
Cost/income ratio	88.9%	75.0%	108.3%		66.0%	82.4%		58.5%	64.5%	
ROE (reported)	**-0.4%**	**-0.5%**	**0.2%**		**3.0%**	**-1.6%**		**4.4%**	**3.0%**	
Balance sheet										
Loan book	1,592,144	1,700,334	1,594,456	-6%	1,812,129	1,903,156	5%	1,907,788	2,330,925	22%
Deposits	2,281,875	2,415,001	2,536,559	5%	2,503,937	2,847,625	14%	2,596,277	3,225,830	24%

Source: Attica Bank, Edison Investment Research. Note: *NII and fees only. **Excludes staff retirement compensation and associates. ***Excludes portfolio gains, loan transfer gains.

Sensitivity analyses

Exhibit 9 shows the earnings sensitivity to movements in the net interest income line. In our base case scenario, we see a 37% CAGR 2019–22e in NII and a 7.4% ROE by 2022. If we increase the NII in 2022 by 10% (a CAGR of 41% 2019–22e), revenue increases by 8%, the underlying PBT by 31% and the ROE estimate increases to 9.7%.

On the other hand, a 10% reduction in the forecast NII in 2022 (CAGR growth 32%), results in a 38% decrease in PBT and an ROE of 4.6%. A 20% reduction in NII results in an ROE of 2.3% and a 69% reduction of PBT versus our base case.

Our estimates are broadly consistent with Attica's business plans, but we have applied an element of conservatism in our numbers.

Exhibit 9: Sensitivity of NII 2022 forecasts

€000s, 2022e	NII + 10%	NII base case	NII -10%	NII -20%
NII CAGR 2019–22	41%	37%	32%	27%
Net interest income	123,956	112,687	101,419	90,150
Total revenue	158,043	146,774	135,505	124,236
% revenue change from base	**8%**	**0**	**-8%**	**-15%**
Profit before tax	47,515	36,247	22,537	11,269
% PBT change from base	**31%**	**0**	**-38%**	**-69%**
ROE (%)	9.7%	7.4%	4.6%	2.3%

Source: Attica Bank, Edison Investment Research

Capital needed for growth

Attica will have to eventually raise equity to help fund its balance sheet expansion as it grows into its operating structure. The statutory CET1 was 11.9% on 30 September 2019 and this is well above the currently required 8%. However, the required CET1 will be climbing above 10% based on our growth forecasts, plus there is the phasing in of the transition provisions of ECB's CRD IV regulation. We estimate the fully loaded CET1 at only 8.6% in Q219. Without any additional capital, we estimate that the fully loaded CET1 could drop to 7.0% by 2021. In our base case scenario, RWA grows 10% in 2019, followed by 25% in 2020 and 35% in 2021.

We believe that Attica will most probably have to live with a CET1 in the 10.5–11.0% range in the future. We therefore believe that 300–500bp of tier 1 capital may have to be raised. This is equivalent to about €117–193m based on the risk-weighted assets (RWA) at the end of 2020 (see Exhibit 12 in the Valuation section).

It is possible that additional securitisations, including the Hercules plan, could reduce the amount of additional capital required. Hidden gains on non-core real estate assets could also reduce this number.

The government's supported Hercules Asset Protection Scheme was approved by the ECB in October 2019. This could potentially be a game changer for both Attica and Greek bonds. Like the GAPS scheme in Italy, it involves the agency buying up NPLs through an SPV, securitising and then selling them with a state guarantee.

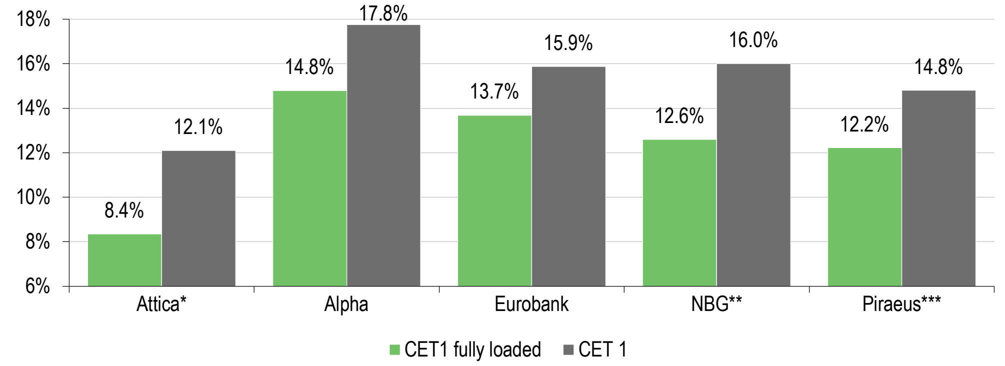
The government believes that as much as €30bn out of the €70bn or so of the Greek bank system NPLs could be removed from bank balance sheets – about 40%. The Greek banks are under pressure to clean up their balance sheets further, including from the ECB. Much has been done, but the banks have NPE ratios in the 30–40% range (Attica has 46%) and we believe the ECB would prefer something closer to 6%. If this is true, it could be that Hercules might have to be followed up with further efforts.

However, we have little clarity on how much capital will be released by these securitisations, especially since some of the loan book could be subject to further write-downs. Attica management is currently assessing its portfolio and aligning itself to prepare to participate in the Hercules plan. The bank needs more visibility on its NPLs before participating. Our estimates assume no gains and no securitisations.

To fulfil the ECB requirements on state aid, the state guarantee is only good for the senior tranche (there will be mezzanine and junior tranches), while the other tranches will have to be sold to private shareholders (at least 50% has to be sold before the state guarantee on the senior is valid).

The SPV purchases will be done at market and fair prices. There will be a fee to be paid for the state guarantee.

Exhibit 10: Greek banks – statutory and fully loaded CET1 (H119)



Source: Banks' data, Edison Investment Research. Note: *Attica fully loaded figure is an Edison estimate. **NBG proforma with agreed divestments. ***Piraeus pro-forma with sale of Nemo portfolio and estimated impact from agreements regarding new NPE servicer.

Sensitivities

We highlight the most significant risk factors for Attica Bank:

Execution risk: the bank plans to grow its balance sheet significantly over the next few years. Such a fast pace of growth may bite later if the credit quality turns out to be poorer than anticipated. There is also the risk that the bank is not able to hire the people needed to help drive this growth.

Cost structure requires a lot of growth: with a high cost to income ratio and low profitability, the delta in terms of revenue or cost variance can be high. Recent results have been short of previous guidance.

Capital: the bank will need to raise equity. Although we believe the current share price already reflects capital concerns, the price might be more earnings dilutive than envisaged. In addition, there is no guarantee that enough capital will be raised to deliver on the planned expansion.

Economy cyclical downturn: banks are highly cyclical companies. The Greek economic recovery is expected to continue, and greater slack in the economy offers more space to grow. However, Greece is a relatively open economy and if there is a global slowdown, this would have an impact on Greece, although with a time lag.

Regulation: regulation is always changing and may result in tougher or more expensive compliance standards.

Valuation

Attica Bank's share price had tripled over the 12 months since February 2019 (when it was €0.11) until a few days ago. This jump has been driven by country and macro news as well as corporate news. The former includes the continued economic recovery, positive government policy actions, reduction of sovereign risk (the Greek 10-year bond yield has fallen from 4% in February to less than 1.0%) and a new government. Unemployment continues to fall and rebounding house prices help boost bank asset quality. None of the significant banks, including Attica, need emergency liquidity (ELA) funding from the ECB. Attica's two successful securitisations and its effective cost-cutting efforts have been positive milestones in its recovery.

The coronavirus-related market crash in the last few days has seen the share price drop as low as €0.20p and as of 11 March 2019, it is €0.23p.

Attica is now trading on a 2020e P/BV of 0.22x, which is in line with the Greek banks average of 0.22x). However, the valuations of the other Greek banks are also relatively depressed due to the higher risk premium on the back of the coronavirus crisis – Greek banks' share prices dropped 15–28% over the last week. We forecast that Attica's profitability will lag that of its peers based on consensus estimates. Attica's forecast ROE is 3.0% for 2021, which compares to a peer average of 5.5%; peers range from 3.6% to 8.0%. Attica's 2021e P/E multiple of 7.2x is higher than its peers because profitability will only start to normalise in 2022. Attica's 2022e P/E is only 2.8x, which looks attractive. However, this does not include the rights issue, which would be highly dilutive, as discussed below. It could more than double this P/E ratio (see Exhibit 12).

We therefore believe that the market is pricing in a good degree of success in the new strategy and in the rebuilding of Attica's revenue base.

Exhibit 11: Greek banks – market multiples

	Price	P/E (x)			P/BV (x)		ROE		
		2019e	2020e	2021e	2019e	2020e	2019e	2020e	2021e
Attica Bank*	0.23	N/M	N/M	7.2	0.22	0.22	**0.2%**	**-1.6%**	**3.0%**
Alpha Bank	1.03	11.4	7.9	4.8	0.19	0.22	1.7%	2.4%	4.5%
Bank of Cyprus	1.02	5.7	4.7	4.1	0.21	0.20	5.9%	5.8%	6.0%
Eurobank	0.50	9.3	5.0	4.2	0.34	0.33	3.4%	7.1%	8.0%
National Bank of Greece	1.58	5.5	6.6	5.2	0.26	0.26	6.7%	3.9%	5.3%
Piraeus	1.50	7.2	4.4	3.2	0.10	0.11	3.9%	2.7%	3.6%
Peers average		**7.8**	**5.7**	**4.3**	**0.22**	**0.22**	**4.3%**	**4.4%**	**5.5%**
Attica vs peers		N/M	N/M	68%	0%	-2%	N/M	(137%)	(45%)

Source: Refinitiv, Edison Investment Research. Note: *We factor in any likely rights issue dilution for Attica Bank. Prices as at 10 March 2020.

Rights issue must be taken into account

Attica's multiples in Exhibit 11 do not take any right issue into account. However, we think it is unlikely that the bank will be allowed to expand its balance sheet in line with our forecasts (net loans from €1.6bn in 2019 to €2.9bn by 2022; management's plan is to double the size) without raising capital.

Therefore, we think it is useful to look at the bank's multiples in the context of three different scenarios of 300bp, 400bp and 500bp equity rights issues at the price of €0.23.The amount to be raised as equity in these three scenarios is €116m, €155m and €194m. These are significant levels to be raised compared to the current market capitalisation (€106m). The shares are trading at a relatively low price and the EPS dilution is therefore considerable. We estimate 52–65% 2021 earnings dilution, respectively.

We are assuming that the equity is raised in 2020 in our analyses and we calculate the dilution on 2021, which is when we see the full impact of the fresh capital and when we expect the bank to make significant earnings. Exhibit 12 shows the impact on the earnings, book value and net tangible assets. Exhibit 13 shows Attica's multiples with the rights issue. The 2021 ROE drops from 3.0% to 2.2% with a 400bp capital hike, for example, in our estimates. The ROE for 2022 falls from 7.4% to 5.4%. We think that the ROE of 5.4% is more indicative of the sort of ROE Attica could be earning in 2022 with a more supportive capital structure. With a 400bp rights issue (we estimate that this would take the fully loaded CET1 to 11.3% in 2021), we estimate it would be trading at a P/BV of 0.40x in 2021e and 0.38x in 2022e, which is not demanding for a capitalised bank well on the path to recovery and offers good upside potential.

The P/E ratio for 2022e would increase from 2.8x to 6.9x with a 400bp capital hike (€155m) in our sensitivity analyses. We are being conservative with the yield forecast of 0% on the fresh money that is assumed to be parked in cash. It is likely that the Greek government would give a little bit of a yield, but this would be low and not that needle-moving in our sensitivity analyses.

Exhibit 12: Earnings dilution scenarios from equity issues

	No new equity	300bp	400bp	500bp
Money raised (€000s)	0	116,290	155,053	193,817
% of current market cap	0	109.6%	146.2%	182.7%
Number of new shares at €0.32	0	505,608	674,144	842,680
Total number of shares (000s)	461,254	966,862	1,135,398	1,303,934
Earnings (2021e, €000s)	14,747	14,747	14,747	14,747
EPS with rights issue (2021e), €	0.032	0.015	0.013	0.011
Earnings dilution	**0**	**-52%**	**-59%**	**-65%**
P/E ratio (2021e) (x)	7.2	15.1	17.7	20.3
P/E ratio (2022e) (x)	2.8	5.8	6.9	7.9
ROE (2021e)	3.0%	2.3%	2.2%	2.1%
ROE (2022e)	**7.4%**	**5.7%**	**5.4%**	**5.1%**
BV 2020 (x)	481,722	598,012	636,775	675,538
BV 2021 (x)	496,469	612,758	651,522	690,285

Source: Edison Investment Research. Note: We assume money raised will be placed in cash and yield 0%.

We think it is conceivable that besides securitisations, Attica Bank may seek to raise some hybrid capital structured to be accepted as common equity tier 1 by the regulator and this may also reduce what is raised as straight equity.

Exhibit 13: Multiples with additional capital

	New cash (€000s)	P/E (x)	ROE	P/BV (x)	P/BV (x)	CET1 FL*	CET1 FL*
	2020	2021e	2021e	2020e	2021e	2021e	2022e
No capital hike	0	7.2	3.0%	0.22	0.21	7.3%	7.0%
+300bp capital	116,290	15.1	2.4%	0.37	0.36	10.3%	10.0%
+400bp capital	155,053	17.7	2.3%	0.41	0.40	11.3%	11.0%
+500bp capital	193,817	20.3	2.2%	0.44	0.43	12.3%	12.0%

Source: Edison Investment Research. Note: *FL = fully loaded.

Fair value

The bank is currently losing money and needs capital and there is a need to take the longer view. Using a simple (ROE-g)/(coe-g) with about 2% (close to inflation figure) and a COE of 12%, then the required ROE is c 5–6% by about 2021 to justify a PBV of 0.36–0.43x (after rights issue dilution) as seen in Exhibit 13. We forecast 3% before a capital hike, or 2.2–2.4% with capital. However, by 2022 we are forecasting 5.1–5.7% (Exhibit 12) with a rights issue and we think that 7–8% for Attica could be sustainable in the longer run if the company delivers on its expansion plan while retaining good control on credit quality and if the Greek economy remains buoyant. Small business lending can be a profitable niche, particularly with good relationships, and smaller banks can make difference in service quality that sometimes bigger banks do not always deliver to the smaller business clients. Again, this suggests there is upside potential at the current price of €0.23 if the company raises equity and meets the forecasts.

Financials

Balance sheet

Our loan growth forecasts reflect management's strategic aim of doubling the loan book over three years and the balance sheet over five. We are taking the company guidance that net NPLs from the legacy book will be neutral and we see the non-performing exposure falling from 46% in Q319 to 27% in 2022. We are not factoring in any securitisations, although these are likely to happen, nor are we assuming any significant sell-off.

The considerable balance sheet expansion will result in RWA also increasing significantly. We assume no securitisations, then we are estimating RWA expands from €3.5bn in Q319 to €4.4bn by 2021. With the bank generating little profit, this results in Attica's statutory CET1 dropping from 11.9% (Q319) down to a forecast 9.3% in 2021. This decline also reflects the amortisation of some of the deferred tax assets (DTAs) and transition capital items. The fully loaded CET1 declines less since the transition items are already removed, but the starting point is lower (we estimate 8.2% in Q319). By 2021 we estimate it will be at 7.0%.

The December 2019 requirement is 8% and as mentioned we think the bank will probably need to be in the range of 10–10.5% fully loaded by 2021 and we therefore expect that between 300bp and 500bp of capital might conceivably have to be raised, as mentioned in the Capital for growth and Valuation sections. However, in our base forecasts we have not included any rights issue, even if for valuation purposes we have looked at likely dilutions.

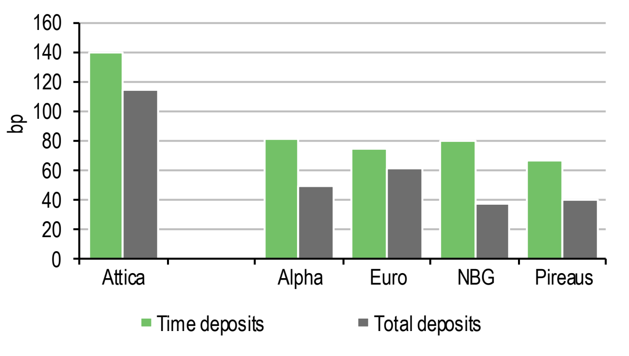
Income statement

We are forecasting a CAGR growth of NII of 37% for 2019–22. We are estimating that Attica's net interest margin (NIM) will widen from the forecast 1.7% in 2019 to 3.0% by 2022. This will mostly be driven by loan growth (including a higher rate lending mix) but we are also expecting improvements on the liability side. The change in loan mix is important to emphasise since SME loans and small business loans have higher interest rates (and of course risk) than corporate loans and mortgage loans that were part of lending in recent years.

Once again, we stress that our numbers reflect Attica's business plan and that we have applied some conservatism. There is significant implantation risk, especially given the ambitious growth targets. Other risks include competitive dynamics, falling interest rates, macro risks and unfavourable surprises in the legacy NPL book.

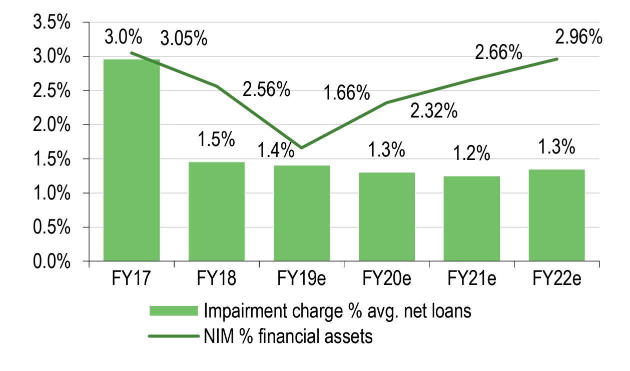
The average cost of financial liabilities is estimated to drop from 174bp in 2019 to 93bp in 2022. This is expected to still be higher than its peers. Reducing the cost of funding is one of the target areas of action in Attica's business plan. As Exhibit 14 shows, Attica pays a significant premium for its client deposits and it is possible that the company might do better on the liability side, especially if it can securitise and sell down its legacy NPL book and return to profitability. Conversely, the risk on the interest income side is higher on the downside as rates come down, the economy improves and banks become aggressive on the lending front. We are forecasting that Attica's average yield on financial assets goes from 3.5% in 2019 to 3.9% in 2022.

Exhibit 14: Greek banks – costs of deposits H119 (bp)



Source: Banks' data, Edison Investment Research

Exhibit 15: Attica Bank – forecast NIM and LLC (%)



Source: Banks' data, Edison Investment Research

We expect fees to grow strongly in 2020 and 2021 due to greater business volume (more loans and letters of credit) as well increases in account fees and the development of its bancassurance business. Net fee growth is boosted by the fact that a good portion of the fee expenses are relatively fixed (mainly the fees Attica must pay the Greek government for the guarantee on the securitisations).

We expect operating expenses to fall by 7% in 2019 and then by 5% in 2020 and 1% in 2021. Staff costs are expected to be relatively stable with no VEP, as previously mentioned. The bank hopes to cut other admin expenses by 15% in 2020 and we have allowed for some efficiency gains in this respect. Savings in other areas such as central office consolidation will offset the cost of paying for a new digital platform (Attica Bank is already in advanced negotiations with vendors).

A key objective for Attica is to have net zero losses from its legacy book from 2021. The legacy stage 3 loans are 46% of the loan book and this is a clear risk factor if asset quality does not develop as planned. We are assuming the impairment charges ratio as a percentage of net loans to be 170bp in 2020, followed by 150bp in 2021 and 2022. As a percentage of performing loans (stage 1 and stage 2), the ratios are 130bp, 125bp and 135bp, respectively. However, there is relatively little visibility and therefore it could easily turn out differently and would have an impact on earnings. A 10% increase in the forecast impairment charges in 2021 would result in a reduction of about 10% to pre-tax earnings. We assuming the bank will be using the ample carry-forward tax losses in its DTAs to avoid paying any tax in the coming years.

Exhibit 16: Financial summary

€000	FY17	FY18	FY19e	FY20e	FY21e	FY22e
INCOME STATEMENT						
Net interest income	86,992	69,290	44,239	67,613	87,348	112,687
Net fees and commissions	10,626	6,956	5,750	15,325	21,455	29,287
Other operating income	69,010	51,741	19,130	4,800	4,800	4,800
Revenues	**166,628**	**127,987**	**69,119**	**87,739**	**113,604**	**146,774**
Cost	(76,116)	(89,192)	(74,870)	(72,319)	(73,264)	(74,369)
Impairment charge for loan losses	(73,500)	(27,527)	(22,350)	(22,743)	(26,454)	(35,458)
Impairment other assets	(14,925)	(3,191)	(1,650)	(1,500)	(1,500)	(1,500)
Associates	(953)	(3,329)	765	800	800	800
Profit before tax	1,134	4,748	(28,986)	(8,024)	13,185	36,247
Taxation	(704)	(7,105)	29,973	217	1,561	1,875
Non-controlling interest	0	0	0	0	0	0
Preference dividend	(12,260)	0	0	0	0	0
Attributable income	(11,830)	(2,357)	987	(7,807)	14,747	38,121
Shares ranking m	2,339	461	461	461	461	461
EPS (€)	(0.01)	(0.01)	0.00	(0.02)	0.03	0.08
Underlying PBT	**(67,913)**	**(21,709)**	**(29,751)**	**(8,824)**	**12,385**	**35,447**
BALANCE SHEET						
Cash and balances with central bank	38,473	60,860	109,548	109,548	104,071	98,867
Due from Financial institutions	2,888	9,516	47,145	47,145	48,088	49,050
Financial assets at fair value	3,536	2,950	8,850	8,850	9,027	9,208
Financial assets available for sale	573,147	909,288	982,031	991,851	1,001,770	1,011,788
Investments held to maturity	9,899	0	0	0	0	0
Loans to customers	**2,192,074**	**1,592,144**	**1,594,456**	**1,903,156**	**2,330,925**	**2,934,167**
Associates	6,757	3,427	3,427	4,227	5,027	5,827
Property, plant and equipment	28,716	31,646	46,978	44,384	41,791	39,198
Investment property	58,047	57,862	57,283	57,856	58,435	59,019
Intangible assets	46,668	50,413	50,299	41,395	32,225	22,779
Deferred tax assets	376,402	420,357	379,322	395,289	382,755	370,221
Other assets	223,764	202,162	206,205	202,081	198,040	194,079
Total Assets	**3,560,371**	**3,340,625**	**3,485,545**	**3,805,783**	**4,212,153**	**4,794,201**
Deposits from financial institutions	943,573	424,683	310,000	262,000	292,000	292,001
Customer deposits	1,924,131	2,281,875	2,536,559	2,847,625	3,225,830	3,672,469
Defined benefit obligations	14,269	12,925	13,184	12,524	11,898	11,303
Other liabilities	45,693	40,449	46,436	112,075	96,119	194,001
Total Liabilities	2,927,667	2,759,932	2,906,179	3,234,224	3,625,847	4,169,774
Total Shareholder's Equity	532,504	490,896	489,529	481,722	496,469	534,590
Preference shares	100,200	0	0	0	0	0
Non-controlling interest	0	0	0	0	0	0
Total Shareholders' Equity	**632,704**	**490,896**	**489,529**	**481,722**	**496,469**	**534,590**
CAPITAL						
Common Equity tier 1 (transitional)	503,618	429,405	420,167	400,457	399,332	417,614
Total Capital	503,618	529,081	519,883	500,173	499,048	517,330
Risk weighted assets	3,421,732	3,204,638	3,589,195	3,876,330	4,302,726	4,905,108
CET1 ratio % (transitional)	14.7%	13.4%	11.7%	10.3%	9.3%	8.5%
Total Capital ratio %	14.7%	16.5%	14.5%	12.9%	11.6%	10.5%
CET1 ratio % (fully loaded)	**11.5%**	**8.9%**	**8.1%**	**7.3%**	**7.0%**	**6.9%**
ASSET QUALITY						
Neither past due nor impaired/stage 1	1,278,531	710,127	781,140	1,054,539	1,423,627	1,921,897
Past due but not impaired/stage 2	199,025	379,012	246,358	283,311	339,974	441,966
Impaired/stage 3	1,189,185	755,999	837,058	847,603	861,840	881,058
Gross loans	2,666,741	1,845,138	1,864,555	2,185,453	2,625,440	3,244,921
Impairment allowance	474,667	252,994	270,099	282,298	294,515	310,754
Non-performing exposures as %	**44.6%**	**41.0%**	**44.9%**	**38.8%**	**32.8%**	**27.2%**
NPE cash coverage	39.9%	33.5%	32.3%	33.3%	34.2%	35.3%
PROFITABILITY						
Cost/Revenues	45.7%	69.7%	108.3%	82.4%	64.5%	50.7%
Return on average equity	**(1.9%)**	**(0.4%)**	**0.2%**	**(1.6%)**	**3.0%**	**7.4%**
Return on avg. tangible equity	(2.4%)	(0.5%)	0.2%	(1.8%)	3.3%	7.8%
Book value per share	0.27	1.06	1.06	1.04	1.08	1.16
Tangible equity per share	0.21	0.95	0.95	0.95	1.01	1.11

Source: Company data, Edison Investment Research

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Revenue by geography

Management team

Chairman: Costas Mitropoulos

Mr Costas Mitropoulos has been chairman since June 2019. He was previously with PwC Greece for six years, as executive director and board member. In 2016 and 2017, he was seconded as CEO of PQH, the Single Special Liquidator of 16 banks. Before that he was CEO of the Hellenic Republic Asset Development Fund, a privatisation agency. Previously (2008-11) he was executive chairman at Eurobank EFG Equities, and was executive chairman Kantor Management Consultants (1989-1997)

Chief executive: Theodoros N Pantalakis

Mr Theodoros N Pantalakis has been the chief executive of Attica Bank since September 2016. From 2009 to 2012 he was governor of Agricultural Bank of Greece and before that (2004-09 was vice chairman of the board of directors of Piraeus Bank. Previously he was deputy manager at the National Bank of Greece.

Co-deputy chief executive: Ioannis Tsakirakis

Mr Ioannis Tsakirakis is co-deputy chief executive and currently serves as head of credit restructuring. He joined Attica Bank in September 2016. He was head of the credit assessment department of Geniki Bank (2014-16). Previously he was deputy general credit manager of Probank (2002-13) and director of Eurobank Finance (2000-02).

Co-deputy chief executive: Antonis Vartholomaios

Mr Antonis Vartholomaios is co-deputy chief executive. He joined Attica in July 2019. He was previously (2013-15) chairman and CEO of Eydap (Greece's largest water and sewage utility company) after being a board member (2004-10). He was on the board of directors of the government national privatisation fund (2011-13) and chairman of Pegasus Securities (2010-12). Previous senior roles include vice chairman of Euroholdings Capital (2000-04), deputy general manager of Egnatia Bank (1996-2000), and head of technology, organisation and financial risk management at Interbank (1992-96).

CFO: Nikos Koutsogiannis

Mr Nikos Koutsogiannis has been the CFO since December 2017. He is a chartered certified accountant and was previously a senior manager at PwC for 14 years.

Retail banking director: Antonios Vourakis

Mr Antonios Vourakis joined the bank in 2013 and has been head of its retail division since September 2018. He has more than 20 years of banking experience. Before Attica, he was at Emporiki Bank (2012-13 and 2002-04), Piraeus Bank (2010-12), Eurobank (2005-09) and National Bank of Greece (1999-2002).

Corporate banking director: Evangelos Tsaldaris

Mr Tsaldaris Evangelos joined the bank in 2008 and has been head of the corporate banking division since April 2018. Previously he was at Emporiki Bank (2005-08) and Egnatia Bank (2003-05). Before that he worked in the IT industry for various companies.

Chief operating officer: Dimitris Vrailas

Mr.Dmitris Vrailas has been the COO since 2018 and joined Attica in 2016. Previously he was a senior advisor at Accenture (2014-6). He worked at National Bank of Greece between 1975 and 1998 and then again between 2002 and 2013. He was the CEO of their IT subsidiary Ethnodata for the last two of those years. In between those two periods at National Bank he worked at Alpha Bank (1998-2002) as deputy manager in organisation and operation division.

Principal shareholders	(%)
United Social Security Institution (EFKA)	46.2%
Fund of Civil Engineers and Public Works Contractors (TMEDE)	32.5%
Fund for Mutual Assistance of the Employees of Ioniki-Laiki (TAPILT-AT)	2.8%

Companies named in this report

Alpha Bank (ALPHA GA), Eurobank (EUROB GA), Piraeus Bank Group (TPEIR GA), National Bank of Greece (ETE GA), Bank of Cyprus (BOC GA)

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